

*Hab Olson*THE WHITE HOUSE  
WASHINGTON

July 28, 1971

~~CONFIDENTIAL~~

## MEMORANDUM FOR

THE UNDER SECRETARY OF STATE

SUBJECT: AID Procurement Procedures for Vietnam

During my recent visit to Saigon the complexity of our AID regulations for the use of CIP funds was called to my attention as the cause of serious inefficiencies and policy problems for our economic assistance program for South Vietnam.

While a principal U.S. purpose is to encourage the Vietnamese to free their economy to the workings of the marketplace without the detailed bureaucratic controls which breed inefficiency, waste and corruption, our own AID procedures themselves require a most complex and bureaucratic process and what appears to be rather arbitrary individual case decisions by AID personnel. We need to insure that the regulations surrounding our aid are not in contradiction with our broader economic goals and that they are not a direct encouragement of GVN practices which we oppose.

I am aware that the AID regulations, history and Congressional implications are complicated.

But I was persuaded by Ambassador Bunker as well as Mr. Cooper and Mr. Mossler that we need a major overhaul to simplify the process of CIP procurement. Importers in Vietnam say it is the complexity and difficulty of CIP procurement that erodes the attractiveness of U.S. procurement as much as our sometimes higher prices.

Some simplification can be done by decisions within AID. Some may require Presidential approval. Some changes may require Congressional action.

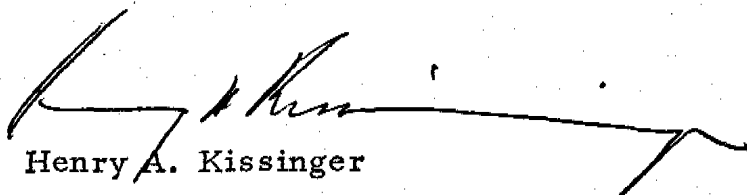
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DOS, USAID, NSS, Reviews  
Completed.

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Please establish a small group of policy level officials including a representative from my Program Analysis staff to examine the CIP procedures in detail here and in Saigon against the background of our overall economic policy. This group should prepare by August 30 a decision paper for the President indicating a list of simplification measures, the implications of each, the authority needed, and alternative sets of steps which would accomplish various degrees of simplification. The paper should also address the total value which can be financed under CIP assuming varying simplification steps as well as changes in commodity eligibility.



Henry A. Kissinger

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July 26, 1971

MEMORANDUM FOR

The Under Secretary of State  
The Deputy Secretary of Defense  
The Director, Central Intelligence Agency  
The Administrator, Agency for International  
Development  
The Director, Office of Management and Budget  
The Assistant to the President for International  
Economic Affairs  
The Chairman, Joint Chiefs of Staff

SUBJECT: Economic Development Fund for Vietnam

The President has decided that a separate fund should be established to support economic development in Vietnam.

A request to Congress for a five year authorization at a level of about \$150 million per year will be prepared by August 15. The fund will be established in FY 72 by diverting required amounts from other appropriations. It will bring together the development elements of our program in Vietnam and the Vietnamese development efforts.

The purpose of the fund is to begin the process of Vietnamization of the economy that over the long term will permit a reduction and withdrawal of U.S. economic supporting assistance. Its basic objective will be to raise the levels of savings and investment in the Vietnamese economy to support additional production for exports or import replacement.

The dollars provided will be used to purchase machinery, equipment, spare parts, construction materials, and other investment goods. The procurement procedure must be simple and the authorization request should make this clear. The fund should be structured in such a way that contributions from other countries, particularly Japan are encouraged. Although a part of the U.S. grant funds would be used directly by the public sector for programs such as power plants or road building machinery, most of the imports would be sold to Vietnamese importers or investors with the piasters used to finance local costs of development including relending to the private sector for investment. Export and import replacement projects should

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receive priority emphasis.

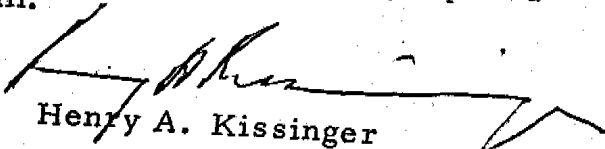
To speed the rate of development the GVN must take a series of actions to remove controls, to reduce corruption, to encourage private investment both domestic and foreign, and to increase taxes and tax collections. Appropriate institutions to accelerate economic growth must be established.

A paper dealing with the economic development fund will be presented to the SRG by August 15. It will indicate policy problems and options which require decisions by the SRG or the President. The paper will cover:

- the actions to be negotiated with the GVN in connection with the establishment of the fund;
- a procedure for relating U.S. disbursements over time to continued GVN performance on economic development;
- the underlying rationale including an outline of growth possibilities for both exports and import replacements and their aggregate balance of payments implications;
- an analysis of means to make the fund attractive for other donors both bilateral (Japan) and multilateral (IBRD);
- an outline of the simplified procurement procedures, including means to promote U.S. procurement;
- a brief description of development institutions to be supported through the fund;
- an analysis of GVN development activities to be folded into the fund;
- actions required by the GVN or U.S. to encourage private domestic and foreign investment.

The NSC and OMB staffs will provide the necessary coordination for this paper in Washington by representatives of the addressee agencies, and integrate these preparations with the paper now being prepared by the U.S. Mission in South Vietnam.

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Henry A. Kissinger

THE WHITE HOUSE

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ACTION

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July 22, 1971

THE PRESIDENT HAS SEEN...

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger and George Shultz *HK*

SUBJECT: An Economic Development Fund for Vietnam

The purpose of this memorandum is to obtain your approval in principle to establish a special development fund for South Vietnam. Your decision will permit the government to develop a detailed proposal within the next thirty to forty-five days.

As the war and our military involvement wind down, our high level of assistance to the Vietnamese economy, now about \$750 million per year, will probably become a major political issue. At the same time the success of the Vietnam stabilization program and the Vietnamese resources freed up by U.S. redeployments open the way for genuine economic development.

Thus it is timely to begin a major Vietnamese effort to accelerate the development of their own economy such that U.S. supporting assistance can be reduced and eventually eliminated. Such a program will require continued substantial U.S. support for economic development over the next few years to assist in the Vietnamization of the economy. President Thieu has sought U.S. support along these lines in conversations with Ambassador Bunker and the issue came up again in my meeting with President Thieu.

We should focus attention on economic development now in order to:

-- Encourage the Vietnamese to devote more effort and resources to development, including such actions as increasing their own taxes,

-- Indicate to the Congress that we plan to reduce our economic support over time as the Vietnam economy grows,

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-- Justify, while the Congressional attitude toward economic assistance is still favorable, a multi-year U.S. commitment which will provide a basis for long-term development planning in Vietnam.

-- Establish a multilateral development approach which will encourage other Free World countries, especially Japan, which will not support war-related expenditures, to support economic development in Vietnam.

-- Encourage U.S. businessmen and Vietnamese who have placed capital abroad to see an economic future in Vietnam worthy of their investment.

All the money for an economic support fund would not be additional to our present level of support because many scattered developmental activities already being financed through our supporting assistance would be pulled together in this effort. Whether or not there should be some increase in the overall level of U.S. assistance (\$750 million) through such a fund will require detailed study, as will such questions as limiting procurement to the U.S., establishment of Vietnamese development institutions, and specific recommendations for Vietnamese reforms.

A five-year authorization at a level of about \$150 million per year for an economic development fund for Vietnam could be sent to Congress this fall. A memorandum initiating an intensive effort to develop the particulars of such a fund is attached.

RECOMMENDATION

That you approve in principal seeking a separate multi-year authorization for an economic development fund for Vietnam.



Approve

Disapprove

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## MEMORANDUM

## NATIONAL SECURITY COUNCIL

CONFIDENTIAL/SENSITIVEURGENT ACTION

July 15, 1971

MEMORANDUM FOR DR. KISSINGER

FROM: Robert L. Sansom *RLS*

THROUGH: K. Wayne Smith

SUBJECT: Vietnam Development Fund and Related Issues

*Have this  
AK*Development Fund

Attached at Tab A is a memorandum for the President and an accompanying proposed directive to the members of the Senior Review Group on the Vietnam Development Fund.

Chuck Cooper has begun the preparation of a development fund proposal in accordance with your instructions. He plans to meet your August 15, 1971 deadline. Cooper's thinking on this issue developed quickly after your visit, but he will still need substantial technical help to put together a proposal by mid-August.

The memorandum for the President informs him of the issues involved and seeks his approval in principle to establish a development fund. The accompanying directive will:

-- inform the Washington agencies of the President's decision.

-- give Cooper the charter he needs to commit AID's resources in Saigon, which he does not directly control (Mossler ranks Cooper and controls these resources) to the task of putting the proposal together.

-- begin supporting preparations in Washington on Congressional issues, third country and multilateral involvement, general funding issues, and basic analytical rationale. These preparations are a prerequisite to having a final package by August 15, 1971 and would be carried out in close coordination with Cooper. (A small Washington group composed of NSC, OMB, and AID individuals would go to Saigon in early August.)

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I have discussed the issues involved with Jim Schlesinger and he supports the proposal. He is confident George Shultz will concur. I did not seek Shultz's signature on the memorandum for the President pending your go ahead. I believe it is important to have Shultz on board from the beginning. You may also want to consider contacting Peter Peterson.

Recommendation

I recommend you and George Shultz sign the memorandum for the President at Tab A ( you may want me to obtain Shultz's signature \_\_\_\_\_ ) and upon receipt of the President's approval issue the attached directive.

You also need to decide if Peter Peterson should be shown the proposal before it goes to the President.

\_\_\_\_\_ get Peterson's approval  
\_\_\_\_\_ Peterson's approval not necessary

CIP Procedures

In Saigon you directed that I make sure you look into the issue of "barnacles" on the Commercial Import Program (CIP) that inhibit the flow of aid and U.S. exports into South Vietnam.

Cooper, Mossler and I reviewed these procedures in detail in Saigon and there appears to be scope for executive action to remove many of these restraints. But as Cooper and Mossler informed you, AID will not do this without White House involvement and without the involvement of policy oriented officials not committed to the technicalities of the present program.

At Tab B is a directive from you to Under Secretary Irwin asking him to establish at the policy level a group to examine CIP procedures and forward to the President an estimate of the costs and benefits of relieving the program of as many of these procedures as possible. The report is due August 15, 1971.

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Recommendation

I recommend you sign the memorandum to Under Secretary Irwin at Tab B to obtain a decision paper by August 15, 1971 on releasing CIP procedures.

Offshore Oil

At Tab C is a State Department cable, not cleared by the White House, that asks Embassy Saigon to consider urging the South Vietnamese to delay for possibly two years further GVN efforts to get explorations underway for offshore oil in South Vietnamese waters.

The cable cites unspecified Congressional pressures as its justification for seeking such a delay. I was told by Mr. Nooter of AID, who said he reluctantly concurred in the cable, that Secretary Rogers was directly involved in preparing the cable.

I can't imagine the political pressures that would justify such a delay which could have important implications for the date at which the Vietnam economy could become self-sufficient. It might also be expected that the Vietnamese would oppose a delay and turn to other countries for help in oil explorations.

I recommend you authorize a member of your staff to put a hold on Saigon's response pending submission to the White House by State of justification for its outgoing cable.

\_\_\_\_\_ approve: action to

Haig \_\_\_\_\_

Kennedy \_\_\_\_\_

Holdridge \_\_\_\_\_

Smith \_\_\_\_\_

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Department of State

TELEGRAM

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CONTROL: 3 3 9 OQ

RECD: 14 JUL'71, 7:03PM

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FM SECSTATE WASHDC  
TO AMEMBASSY SAIGON 3494  
BT

CONFIDENTIAL STATE 126346

NODIS

SUBJECT: OFFSHORE OIL

REF: STATE 115903

1. WE UNDERSTAND MOBIL OIL HAS NOW DECIDED AGAINST SENDING SEISMIC RESEARCH SHIP INTO VIETNAMESE WATERS AS TENTATIVELY PLANNED PER REFTTEL. WE UNDERSTAND FURTHER THAT OTHER U.S. COMPANIES ARE INCREASINGLY RELUCTANT TO GET INVOLVED IN VIETNAM OFFSHORE OIL ISSUE AT THIS JUNCTURE.

2. CONSEQUENCE OF THIS CONCERN AMONG COMPANIES HAS BEEN REFLECTED IN CONGRESS, FROM WHICH WE HAVE BEEN RECEIVING SUGGESTIONS THAT USG INTERVENE TO ASK GVN TO POSTPONE OFFSHORE OIL CONCESSION BIDDING UNTIL SOME MORE PROPITIOUS TIME (E.G. TWO YEARS HENCE). WE HAVE EXPLAINED TO CONGRESSIONAL INQUIRERS THAT USG POLICY IS TO MAINTAIN HANDS OFF POSITION ON THIS ENTIRE QUESTION, LEAVING DECISIONS TO BE WORKED OUT DIRECTLY BETWEEN GVN AND OIL COMPANIES. THESE EXPLANATIONS HAVE NOT RPT NOT SATISFIED INQUIRERS.

3. WE ARE THEREFORE RECONSIDERING OUR HANDS-OFF POLICY AND CONTEMPLATING INSTRUCTING YOU TO APPROACH THIEU TO SEEK GVN ACTION SUSPENDING CURRENT PLANS CALLING FOR EARLY BIDS ON OIL CONCESSION, AND POSTPONING THIS ACTION INDEFINITELY. GVN COULD USE AS ITS REASON THE NEED FOR MORE TECHNICAL PREPARATION WHICH BECAME APPARENT IN MINISTER NGOC'S RECENT MEETINGS WITH OIL INDUSTRY OFFICIALS IN NEW YORK.

4. PLEASE GIVE US SOONEST YOUR CONSIDERED OPINION HOW BEST WE MIGHT PROCEED. GP-2. IRWIN  
BT

DRAFTED BY: EA/VN:WBHarbin/EA:WHSullivan

APPROVED BY:

EA-Mr.Green

J-UAJohnson

D-Mr.Samuels

S/S-Mr.Eliot

E/FSE-Mr.Akins

AA/VN-RHNooter

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